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Iowa Lottery Report On Operations

To: Members of the House Government Oversight Committee and Senate Government Oversight Committee

From: Dr. Ed Stanek, President and CEO

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After achieving record sales in its latest fiscal year, the Iowa Lottery is quickly closing in on another big number: \$1 billion in revenues raised for the state programs that benefit all Iowans.

Through the end of November, the lottery had raised \$965.3 million in revenues since its start in 1985. With several more months to go in fiscal year 2006, the lottery could end its 20th anniversary celebration by topping the \$1 billion mark in profits to the state.

Legislation creating the Iowa Lottery was signed into law on April 18, 1985, and lottery sales in Iowa began on Aug. 22, 1985.

Lottery revenues in Iowa have been dedicated to different causes through the years. When the lottery started in 1985, lottery proceeds were dedicated to economic development through a fund called the IOWA Plan. In 1991, lottery profits to the state were dedicated to natural resources programs. After one year, the Legislature was having difficulty balancing the state budget and directed lottery revenues into the state general fund. Most lottery revenues have continued to go into the general fund since that time, although 0.5 percent of gross lottery sales are dedicated to the Iowa Gambling Treatment Program.

Some other "landmark" figures for Iowa's lottery through the end of November 2005:

- Lottery sales in the state have totaled nearly \$3.6 billion.
- Iowa Lottery players have won more than \$1.9 billion in prizes.
- Lottery tickets are sold at more than 3,800 retail locations in Iowa.

Celebrating No. 20 A Million Times Over!



One of the games the Iowa Lottery introduced to thank its players for two decades of support will bring a big prize drawing in January!

Sales of the \$10 “Thanks A Million” instant-scratch game began July 18 and drawings in the promotion being run in conjunction with the game will culminate with a \$1 million drawing in late January.

Players who didn’t win a cash prize on their Thanks A Million ticket could mail it in for drawings that began Aug. 4. Just one drawing is left, and it’s for the \$1 million prize on Jan. 26! Winners in the drawings so far were:

- Margaret Venteicher of Corning won \$500 in the drawing on Aug. 4.
- Ken Keene of Stanhope won \$500 in the drawing on Aug. 18.
- Margaret Stripling of Lu Verne won \$1,000 in the drawing on Sept. 1.
- Edwin Hobbs of Bedford won \$1,000 in the drawing on Sept. 15.
- Virginia Miller of Shenandoah won \$2,500 in the drawing on Sept. 29.
- Helga McMicken of Carroll won \$2,500 in the drawing on Oct. 13.
- Robert Winn of Rock Island, Ill., won \$5,000 in the drawing on Oct. 27.
- Jay O’Brien of Atlantic won \$5,000 in the drawing on Nov. 10.
- Raymond Rose of Ottumwa won \$10,000 in the drawing on Dec. 1.
- Rick Johnson of Estherville won \$20,000 in the drawing on Dec. 22.



Powerball Changes – And Iowa’s Biggest Lottery Prize

In August, changes took effect in the Powerball game that were designed to meet player expectations for larger, faster growing jackpots and accommodate population changes in the Powerball group. Those changes helped create the largest jackpot in the history of the game – a \$340 million prize that was won by an Oregon family in the drawing on Oct. 19. And, the Iowa Lottery saw its biggest prize winner to date when a Powerball player who bought a ticket in Des Moines won a \$113.2 million prize in the drawing on Dec. 14.

Powerball sales began in April 1992, with 15 states, including Iowa, participating in the game. Today, Powerball is sold by 29 lotteries, including three that joined the game in 2004 and pushed its combined population to about 92 million. And, two additional states – Oklahoma and North Carolina – have both joined the game but have not yet begun to sell tickets. Oklahoma will begin selling Powerball tickets in January and North Carolina should follow suit later in the year.

On Aug. 28, the guaranteed starting jackpot in Powerball increased from \$10 million to \$15 million. Another change doubled the prize for those players who match the first five numbers but miss the Powerball. They win \$200,000 instead of the previous \$100,000 prize.

Two white balls were added to the first pool of numbers in Powerball drawings, meaning players choose five numbers from 55. Players continue to select the Powerball from a pool of 42.

Powerball's annuity option also was changed so that players receive an annual payment that increases each year (the jackpot used to be paid out in 30 equal installments over 29 years). Players also can continue to choose to receive the jackpot as a lump-sum cash payment, but the option to receive payments that increase over time is in response to players who have voiced concerns about the effects of inflation on their annuity.

Powerball plays still cost \$1 and drawings are held at 9:59 p.m. on Wednesdays and Saturdays. The overall chance of winning a prize in Powerball has changed only slightly, from about 1 in 36 to 1 in 36.6. The odds of winning the jackpot changed from about 1:120.5 million to 1:146.1 million.

Still Waiting To Meet Iowa's Biggest Lottery Prize Winner

As the end of calendar year 2005 neared, the lottery – and the rest of the state – was still waiting to learn who had won Iowa's biggest lottery prize to date.

An Iowa Lottery player who bought a ticket at a Des Moines supermarket won the \$113.2 million jackpot in the Powerball drawing on Dec. 14. The jackpot-winning ticket was sold at Dahl's, 1819 Beaver Ave. in Des Moines.

The winning numbers in the drawing were: 8-15-16-45-51 and Powerball 11. The jackpot-winning ticket matched all six numbers drawn. Winning tickets in the Powerball game expire one year after the date of the drawing. Dahl's received a \$10,000 bonus from the Iowa Lottery for selling the jackpot-winning ticket in Powerball.

The jackpot-winning ticket was the 87th purchased in Iowa to win a prize of \$1 million or more.

Powerball jackpot prizes won in Iowa must be claimed at the lottery's headquarters at 2323 Grand Ave. in Des Moines. Iowa Lottery players now have won five Powerball jackpots. The four previous winners are:

- Ed Brown of Washington, who split a \$10.4 million jackpot with a Missouri woman in December 1992.
- Tim Schultz of Des Moines, who won a \$28 million jackpot in February 1999.
- The Larry Hasken family of Sabula, who claimed a \$31.8 million jackpot in January 2000.
- Jacquelyn Moore of Omaha, Neb., who won a \$14.4 million jackpot in October 2004 (she bought her ticket at a convenience store in Carter Lake in western Iowa).

Self-Exclusion Policy

In early December, the Iowa Lottery Board voted to establish a player “self-ban” policy designed to address issues related to problem gambling.

At its meeting Dec. 6, the board voted to create a policy that will allow players to sign contracts stating that they are problem gamblers and wish to enter into voluntary self-exclusion agreements with the lottery. The agreements would ban those players from the lottery's five regional offices in the state and allow the lottery to deny payment of any prize at a lottery office to those players.

Board members said they believe the policy will act as a deterrent and take away the incentive to gamble from those who sign self-ban agreements with the lottery. The lottery has been considering such a ban for some months, and the lottery's record sales of more than \$210 million in fiscal year 2005 became the impetus for moving ahead with the plan.

The lottery has not been a big contributor to problem gambling in Iowa - just 4 percent of those admitted to treatment through the state Gambling Treatment Program cite lottery games as their primary form of wagering. However, Lottery Board members stated that adopting the self-ban policy was a proactive, responsible step they wanted to take. The Iowa Lottery is believed to be the first in the country to have such a policy.

Under the policy, a lottery player who wished to enter into a lifetime self-ban agreement with the lottery will sign a contract provided by the lottery and have it notarized, then turn it in to the lottery. In the contract, players will acknowledge that they are problem gamblers, and that their ability to claim lottery prizes is an unwelcome incentive for them to play. The players will acknowledge that they want to reduce the incentive to play lottery games by entering into a voluntary self-exclusion agreement restricting them from claiming prizes at lottery offices.

The lottery will honor the players' requests by developing a computer database containing the names and Social Security numbers of those who have signed the contracts. The lottery will check information against the database whenever someone tries to claim a prize at an Iowa Lottery office. Those players on the list will be denied prize payment.

The lottery also will remove from any mailing or promotional lists the names of those players who entered into self-ban contracts.

Because lottery products are sold at about 3,800 business locations in Iowa, enforcement of such a ban at the retail level is not feasible. However, the policy will act as a deterrent by denying large lottery prizes to players signing the contracts, because all prizes of more than \$600 must be claimed at a lottery office.

The lottery has regional offices in Council Bluffs, Storm Lake, Mason City, Des Moines and Cedar Rapids.

The voting members of the Iowa Lottery Board are: Chairperson Elaine Baxter, a former secretary of state from Burlington; Vice Chairman Tim Clausen, a Sioux City attorney; Mary Junge, an accountant and lawyer from Cedar Rapids; Mike McCoy, an insurance executive from West Des Moines; and Bill Brosnahan of Dubuque, a retired DCI agent. State Treasurer Michael Fitzgerald is an ex-officio member of the Board.

The lottery is finalizing the procedures it will need to implement the policy and anticipates making the program functional in early 2006. A copy of the lottery's self-ban contract is included as an appendix to this report.

Monitor Vending Machines (marketed under the brand name TouchPlay)



Throughout 2005, the lottery continued to develop its partnership with small businesses around the state in the deployment of monitor vending machines. Profits to the state from ticket sales from the machines, which are marketed under the brand name TouchPlay, are estimated at \$30 million for fiscal year 2006 and \$45 million for FY 2007.

Eighty-three small businesses have passed financial and criminal history background checks to be licensed by the lottery as retailer-operators that can place TouchPlay machines in the state, and four companies have been certified by the lottery to manufacture TouchPlay machines. Those private companies have invested more than \$60 million to date in manufacturing, purchasing and installing TouchPlay machines. About 4,500 TouchPlay machines had been installed in about 2,500 business locations in Iowa as of late December, making a difference in the bottom lines of local restaurants, bars, convenience stores and other retail locations that sell Iowa Lottery products.

The lottery has continued to monitor the development of the TouchPlay project and has enacted a number of restrictions on the placement and operation of machines.

In late May, the Iowa Lottery imposed a moratorium on new applications for manufacturer certifications and retailer-operator licenses. Lottery executives determined that numbers on both the manufacturer and retailer-operator front were sufficient to serve the public convenience. While the lottery will continue to monitor the situation, both moratoriums will continue indefinitely.

In November, the lottery imposed a moratorium on the trade types of businesses eligible to become TouchPlay retailers. The moratorium is designed to limit TouchPlay placements only to those types of businesses that have regularly sold lottery tickets and other age-sensitive products. Those business types are: convenience stores, gas stations, truck stops, grocery stores, drug stores, liquor stores, bars, restaurants serving alcohol, bowling alleys and fraternal organizations. The Lottery will continue to monitor the situation, but the moratorium on trade types eligible to become TouchPlay retailers will continue indefinitely.

The Lottery also has proposed administrative rules to address the limitation on TouchPlay machine numbers that it has had in place as part of the TouchPlay business plan since the program's inception.

The proposal would put in place administrative rules limiting the number of TouchPlay machines in businesses that provide an age-controlled environment to two, with the exception of fraternal or charitable social clubs, which may place up to four machines. Businesses that provide an age-restricted environment – meaning an area where those younger than 21 are not allowed – also may have four machines. No location can have more than four machines.

Lottery personnel are inspecting each business where TouchPlay machines are being installed and operated to ensure compliance with state rules and regulations regarding the sale of lottery tickets. All TouchPlay premises locations are inspected before equipment is installed and lottery personnel will continue the inspections on a recurring basis.

The lottery also is requiring that the retailer-operators installing TouchPlay machines around the state undergo training regarding the rules and regulations involved in the machines' operation. In July, the lottery led five training sessions around the state that were attended by TouchPlay retailer-operators and dozens of their employees. Retailer-operators will not be able to install machines until they have completed the lottery's TouchPlay training session and the lottery will continue to conduct the training on an annual basis.

The lottery videotaped one of the TouchPlay training classes and used that footage to produce a training video that it has supplied to all retailer-operators in the program for their ongoing staff use. A copy of the 25-minute video is enclosed in DVD format with this report.

Deployment of TouchPlay machines began in May 2003. All parties involved in the TouchPlay project receive a share of the net revenue from machines (net = sales – prizes). The Lottery's share of the net is the same from retailer to retailer and is established on a calendar-year basis. For the current calendar year, the Lottery receives 24 percent of the net revenue from TouchPlay and that figure will increase to 34 percent by calendar year 2009. The rest of the net revenue from each machine is split by the machine manufacturer, the retailer who purchases the machine and the business location where the machine is installed. The Lottery does not establish payment levels for those three parties, and instead, leaves that determination open to negotiation among them.

The price of TouchPlay tickets varies from game to game, just as prices vary for the Lottery's other products (instant-scratch games, pull-tab games and lotto games). For example, tickets in some pull-tab games cost \$1 each while tickets in other games may cost 25 cents or 50 cents each. The price of the game is the same from retailer to retailer, but different games have different price points. The same is true for the Lottery's instant-scratch, lotto and TouchPlay games. All TouchPlay retailers charge the same price per ticket in a particular game, but different games have different price points.

Here is a day-to-day working picture of how the Lottery accounts for revenues in the TouchPlay program: All Lottery TouchPlay machines report via telephone line to a central system so that money going into the machines and prizes won on TouchPlay tickets can clearly be tracked. Information about sales and prizes is collected at each machine manufacturer's central system and then compiled in the Lottery's accounting system, where an invoice is prepared for each retailer. That invoice details TouchPlay sales by location

and breaks out the Lottery's share of net revenue from each machine as well as the manufacturer's share of the net. Through electronic funds transfer, the Lottery collects money each week from retailers' bank accounts. The Lottery collects both its share of the net and the manufacturer's share of the net, then forwards the manufacturer's share to that particular company. TouchPlay revenues become part of the total Lottery transfer made each quarter to the state.

The TouchPlay project has addressed several key areas of concern with state leaders:

1. The machines do not pay out cash. Players receive tickets that can be redeemed for Lottery prizes at the businesses where they play or at Lottery regional offices.
2. The machines do not utilize an internal randomizer when producing a play. All plays come from a predetermined pool of plays, just like the Lottery's instant-scratch games and pull-tab games.
3. Like all other Lottery products, the machines must be located in age-controlled environments (premises where the age of patrons is monitored by the employees of the establishment). And, players must be 21 to use TouchPlay machines.

Lotto Game Patent

A European patent has been issued to Ed Stanek for a new lottery game.

The game, which is similar to Powerball, consists of two pools of numbers. The lottery operator picks a predetermined number of selections out of the first pool and each player of the lottery game also picks out the same predetermined number of selections out of the first pool.

The lottery operator picks two or more selections out of the second pool while each player is allowed to pick only one selection out of the second pool. The jackpot prize is won by matching all selections from the first pool and any of the lottery operator selections out of the second pool. By adjusting the number of selections in each pool, the prize structure of the game increases the amount of money awarded to the jackpot and lower-range prizes and decreases the amount paid to intermediate-range prizes.

Promoting Iowa Programs

Fiscal Year 2006 finds the Lottery continuing its important work of highlighting the state's success stories. Examples of projects include:



- Seat belt safety. During the months of December, May and August, the lottery will run messages on its tickets and customer display units to encourage people to buckle up. The messages will run during times of peak holiday travel, vacation season and just before the start of school. One of the first messages that the lottery printed on its lotto tickets to promote seat belt use was:
Winners wear seat belts.
Be a winner. Buckle up!



- Eliminating litter. During the months of March, April and July, the lottery will run messages on its tickets and customer display units to encourage Iowans to eliminate littering. The messages will run during the period leading up to Earth Day (April 22) and during peak vacation travel season. One of the messages that the lottery will print on its lotto tickets to support the program is:
Keep Iowa Beautiful
Prevent Littering.

On-Going Issues

Fuel Prices: Iowa Lottery executives continue to closely monitor fuel prices to determine their effects on sales and profits.

Gasoline prices in Iowa have spiked into record territory and home heating costs this winter also are predicted to be extremely high.

With fuel prices cutting into consumers' discretionary income, sales of lottery products and other convenience items likely will be impacted. And the lottery, like other businesses, will face higher delivery costs and see other budget impacts from the higher fuel costs. But while some businesses can adjust the price of their products to pass along higher costs to consumers, that is not a possibility for lotteries, which sell products for firmly established prices such as 25 cents or \$1. An increase in the price of a lottery ticket from \$1 to \$1.05 would be shunned by consumers and have an extremely detrimental effect on sales.

Gambling Decisions: With new casinos under construction in the state, more competition will be created for consumers' discretionary income, meaning more competition for the Iowa Lottery and other businesses in the entertainment industry. The lottery will continue to monitor the expansion of gambling in Iowa and what impact that expansion could have on lottery income to the state.